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THE MAXIMUM AND MINIMUM TARIFF

BY JOHN FRANKLIN CROWELL, PH.D.,
"The Wall Street Journal," New York City.

The declarations of the National Republican platform in favor of the maximum and minimum tariff to supersede the existing general tariff is pretty sure proof that, if the present administration be returned to power in the coming elections, revision will be made in keeping with the policy thus outlined. In the platform statement the minimum tariff is proposed as the normal and the maximum as the means of forcing more favorable terms upon nations whose tariffs discriminate against American goods. Presumably the standard of equal treatment is still to be found in the most-favored nation basis.

If the government actually carries out this program, it will mean that the United States is taking counsel in her tariff developments from her own imitators who have meanwhile gone much farther in the use of the tariff as an offensive and defensive instrument of trade. Our protective tariff which continental Europe first copied has in their hands been developed from a mere defensive measure to an offensive weapon. But in applying our protective tariff they discovered that the self-sufficiency of our natural resources and home market was lacking in their case. Hence the necessity of so developing their tariffs as to favor the imports of raw materials and to force open foreign markets for their manufactures. As the industrial development of the United States advanced, some such tariff reconstruction has become inevitable here.

How is this program likely to work, as applied to the United States? That will depend much on the skill, technical intelligence and commercial foresight with which the proposed maximum and minimum tariff is constructed. The construction of the schedules in turn will depend largely on the proportionate weight allowed to expert judgment, producing interests and the consuming public in dictating rates of import duties. Our existing tariff favors the producing interests most and the consuming interests least. Although constructed with skill, it lacks that capacity to encourage

foreign trade by being adjustable to conditions within limits prescribed in the schedule.

An approach to this adjustability was made in our reciprocity treaties and in the surtax on imports of bounty-fed sugar. Neither of them worked satisfactorily, probably because of the quite limited scope of their application. The reciprocity treaty with Canada worked against our interests. That with Spain (Cuba) worked in our favor. But the net outcome of the surtax war with Russia probably did the United States more harm in the exclusion of our manufactures by the maximum tariff imposed by Russia than our excess tax on sugar did to Russia.

Assuming that our maximum and minimum tariff schedules are to be constructed with as much insight and foresight as the French or the German tariffs, having thoroughly considered both trade relations and the treaties arising out of the new schedule, then the result will depend on the skill with which the treaties are negotiated and the system applied. If applied by a permanent commission composed of competent experts, not exclusively given to questions of customs administration, but quite as much to mastering the more general problems of our foreign trade, then there may be found in this system of tariffs the key to the baffling situation from which American foreign trade must sooner or later extricate itself.

If these requirements of a scientifically constructed and competently administered tariff are not met in some reasonable measure in the proposed maximum and minimum schedules, then the instrument which has proved so effective elsewhere may, for lack of these essentials, prove to be a bungling machine in the hands of those who have not yet risen to the height of its mastery. The first problem is to construct the right kind of a mechanism. The next one is to see that it does not work to the detriment of the domestic good, nor to the defeat of the desire for an expanding international trade.

Such an instrument the French statesmen intended to contract in their maximum and minimum tariff of 1892. They succeeded finally in accomplishing the two main objects—to give greater security and encouragement to domestic production, and to obtain readier access to foreign markets. The difference between minimum and maximum rates indicated the measure of concessions France was prepared to make for admission of her products to outside

markets. The maximum tariff was in force except wherever by agreement to favor French imports the minimum rate was granted. On cattle and meats, for instance, in which the United States was greatly interested, the tariff of 1892 had only one schedule. But ten years later, after it was seen that even Germany could import meats profitably over the rate of \$1.93 per kilo, the minimum rate on cattle was doubled and the maximum trebled. The rates on meats were advanced as below:

	Tariff of 1892.		Tariff of 1902-03.	
	Max.	Min.	Max.	Min.
Cattle	\$1.93	\$1.93	\$5.79	\$3.86
Mutton	6.17	6.17	9.63	6.75
Pork	2.32	2.32	7.72	5.40
Beef	4.82	4.82	9.65	6.75
Salt meats	4.82	4.82	9.65	5.79

This table illustrates the extent to which the tariffs were applied in the effort to preserve the entire domestic trade. At all hazards the home market was to be reserved in full. To that end the schedules were kept in the control of the legislature rather than entrusted to the treaty-making powers, whose range of concessions was defined by the two extremes of the schedule. By this method any unfavorable developments in trade movements could be dealt with from year to year. The tariff war with Switzerland, which would not accept even the French minimum as the equivalent of Swiss rates on French goods, lasted only seven months (1895)—long enough to result in France's giving Switzerland lower than minimum rates on twenty-nine commodities. (Ashley, *Modern Tariff History*, Ch. VI.) Thus out of the double schedule developed a sub-minimum schedule, as with Spain and Switzerland, and by Article IV of the Meline law an ultra-maximum or commercial war tariff was provided for. Consequently the so-called maximum and minimum tariff has by this time evolved into a fourfold schedule, any one or all of which may be changed at any session of the legislature, to say nothing of treaty changes or the varying interpretations of the tariff administration. This gives great instability to imports. The burden of the French system is defensive to the extent of prohibition of foreign competition. A secondary consideration is the expansion of exports. With the German tariff policy the former is assumed as secure and the latter is the main purpose.

This difference is significant of the tariff methods of the two nations.

This was only one side of the workings of the French system. The natural effort to escape the burdens of maximum rates is seen in the fact that within a year or two eighteen different countries, by treaty or convention, became entitled to the minimum tariff. Within the scheduled limits of double tariffs there are always wide possibilities of negotiation. Germany, seeing this opportunity, and fearing to hazard her export trade to legislation, threw the weight of her efforts into commercial treaties, by which, in the negotiations of 1890-92, a ten-year freedom from charge was, as a rule, secured, and a definite basis found for pushing her export interests.

Of the two nations, France and Germany, both have the double tariff, but the former has contrived her system to admit of readjustment in administration, thus retaining a large element of uncertainty in its working in trade, while Germany has largely eliminated this by the specific terms of commercial treaties. The years 1903-04 marked the end of the old and the beginning of the new tariff policy of Germany. The highly specialized tariff aimed at two objects, to place higher duties on all manufactures which had hitherto been imported in greater value than Germany exported, and to secure more favorable trade treaties in the place of the Caprivi treaties as their limit expired. (Review of World's Commerce, Washington, 1904, p. 72.)

On this basis Germany's foreign trade is now advancing, and apparently with increasing confidence toward the future. The French tariff has given a high measure of self-preservation to domestic industries in agriculture and manufacturing. But it has not really secured that degree of expansion in foreign trade which was anticipated. This is due only in part to the indefiniteness of her general treaties, but also in part to the character of her exports which go mainly to the well-developed nations, as compared with Germany, whose treaties with the smaller nations of Europe have given her special advantages.

The United States have now before them two historic experiments in tariffs based on the ideas of protection to home industries and exportation of a growing industrial surplus. Which of the two is better adapted to our purposes? The answer would seem to be this: That until the United States becomes fully enough aware

of the necessity for its manufactures to open and maintain foreign markets as a permanent part of national policy, the methods involved in the French system may be quite adequate for most of our needs. But once the industrial interests of the nation get a foretaste of the possibilities of a truly world market, we will have to resort to the much more specific and systematic methods of Germany. In fact, the more highly developed exporting industries, like the implement industries, the steel industries and the provision industries can even now have no other vital interest in the tariff than this one, by which their particular products may be given favorable treatment by foreign nations in permanent treaties.

The lack of permanence involved in the maximum and minimum schedules is one of the most serious objections to it. If, for instance, a domestic industry has been protected by a maximum tariff up to a given date, and then upon some foreign nation's compliance with conditions, it is given the minimum tariff, what is there to prevent the sacrifice of the domestic industry in question? Either the export concessions must be foregone or the home industry sacrificed to imports.

This illustrates some of the legislative and administrative difficulties in the way of adapting a maximum and minimum tariff system to our increasingly complex commercial life. If Congress stops with a mere adoption of the double schedule, but does not go farther and follow up the strategic advantage lying beyond, by negotiating treaties which favor the more progressive export interests, it will not be putting into practice the results of the world's best constructive experience in tariff policy.